

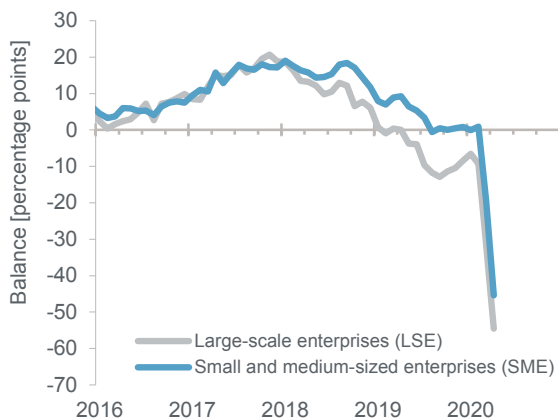
»» SMEs are now clearly in the throes of the coronavirus slump

8 May 2020

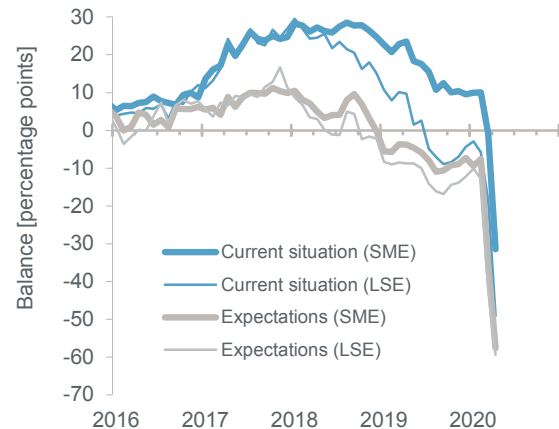
Author: Dr Klaus Borger, phone +49 69 7431-2455, klaus.borger@kfw.de
Press contact: Christine Volk, phone +49 69 7431-3867, christine.volk@kfw.de

- Collapse in business confidence continues unabated
- Historic slump in situation assessments, historic low in expectations
- No sector is immune to the rapid deterioration in sentiment
- The worst recession since the founding of the Federal Republic of Germany looms in 2020

KfW-ifo business climate



KfW-ifo climate components



Source: KfW Research, ifo Institute

SME confidence continues in freefall

Business sentiment in the German SME sector continues in freefall. In April it nosedived by 26.0 points, down even more sharply than in March, when it plunged by 20.3 points. SMEs are now definitely in the throes of the coronavirus crisis. At now -45.4 balance points, the mood is even more depressed than eleven years ago, at the height of the financial crisis (March 2009: -37.6 balance points). Both subcomponents of the indicator stand out with new negative records.

- Business situation assessments dropped by 30.6 points, the sharpest monthly drop ever recorded. The strongest previous decline was 10.9 points and occurred in March. Despite the unprecedented collapse since February, however, situation assessments remain above their financial crisis lows, at -31.5. This suggests that SMEs entered the crisis in a robust position two months ago.
- Business expectations deteriorated rapidly again, although the rate of decline has slowed somewhat (April: -22.0 points to 57.6 balance points, March: -28.0 points). SMEs have never been as pessimistic about the future as they are right now.

April was the first full month affected by the restrictions introduced in the second half of March to contain the coronavirus pandemic, such as social distancing rules and extensive mandatory business closures. The ongoing collapse of the SME business climate is therefore as plausible as the fact that the sentiment trend is also similar overall among large enterprises.

Large enterprises are even worse off

However, large-scale industry has long suffered from weak international demand and, ever since China became the first country to impose drastic restrictions from the second half of January in response to the virus outbreak that originated there, also from supply chain disruptions. Large enterprises are therefore generally in even worse shape than SMEs, as shown by their business sentiment reading. After another extremely sharp drop of 23.2 points, it fell to the new all-time low of -54.5 balance points in April. Both their assessments of the current situation (-30.4 points to -49.1 balance points) and their business expectations (-17.1 points to -59.4 balance points) dropped very steeply again.

The crisis has hit all sectors

The coronavirus crisis has impacted all sectors, if to varying degrees. The slump in the business climate on the previous month ranged from -30.8 points in the SME retail sector to -17.7 points among large service providers. Confidence levels there had already virtually collapsed in March. At -60.5 balance points, sentiment is currently the lowest among large manufacturers, with its focus on the automotive industry and makers of high-quality capital goods. Their export expectations are also gloomier than ever before (-28.0 points to -60.7 points), as are those of SMEs that operate in this sector (-32.2 points to -57.9 balance points). SME construction firms, on the other hand, reported the lowest drop in business sentiment (-8.8 balance points). Although assessments of the current business situation remain clearly positive, it was primarily the strong surge in pessimism about expectations that dragged sentiment in construction SMEs down sharply. In addition to labour shortages as a result of intra-European border closures, this is likely to be a reflection of concern over crisis-induced declines in household incomes that could dampen construction activity in future. Such concern should not be dismissed, as underscored by the very rapid and drastic fall in employment expectations of companies of both size classes (SMEs: -16.5 points to -24.6 balance points; large enterprises: -12.5 balance points to -27.5 balance points).

Historic recession is looming

Without a doubt, the findings of the KfW-ifo SME Barometer for April are depressing. On average, all individual indicators surveyed have fallen by around ten times the typical monthly variation and some even more. Because of their design, such survey-based indicators illustrate cyclical changes across the entire business ecosystem and give an impressive picture of the far-reaching economic impact of the mandatory shutdown of broad areas of life that were necessary to protect public health. Seen in this light, the historic slump in business sentiment is due to the very special circumstances of the coronavirus pandemic and not driven by any internal, genuinely economic factors. But that also means that sentiment should be able to rebound relatively swiftly once we can ease our foot off the external brakes. Given the comprehensive coronavirus containment strategy, the successes achieved since March in stopping the spread of infections and the now announced or already implemented conditional relaxation of restrictions, we are confident that we saw sentiment bottom out in April. After what has been an unprecedented double-digit percentage drop in GDP this second quarter (-10 to -15% from the first quarter), we expect economic growth to start to rebound in the second half of the year. But for 2020 as a whole, the worst recession is looming since the founding of the Federal Republic of Germany.

KfW-ifo SME Barometer in figures

| Balance [Percentage points]* | | Month/Year | | | | | | | m-o-m | y-o-y | 3m-o-3m |
|---|------------|------------|--------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|
| | | Apr/19 | Nov/19 | Dec/19 | Jan/20 | Feb/20 | Mar/20 | Apr/20 | | | |
| Business climate | | | | | | | | | | | |
| Manufacturing | SME | -2.3 | -13.2 | -14.3 | -11.8 | -7.4 | -22.1 | -46.8 | -24.7 | -44.5 | -12.3 |
| | LSE | -8.2 | -20.3 | -18.1 | -16.4 | -15.5 | -35.9 | -60.5 | -24.6 | -52.3 | -19.0 |
| Construction | SME | 28.4 | 28.4 | 24.5 | 19.7 | 18.5 | 12.5 | -8.8 | -21.3 | -37.2 | -16.8 |
| | LSE | 28.2 | 14.3 | 18.2 | 14.4 | 19.2 | 3.0 | -24.2 | -27.2 | -52.4 | -16.3 |
| Retail trade | SME | 11.7 | 12.4 | 11.7 | 8.6 | 10.5 | -12.6 | -43.4 | -30.8 | -55.1 | -26.1 |
| | LSE | 3.6 | -3.7 | -5.5 | -2.3 | -1.6 | -23.9 | -53.4 | -29.5 | -57.0 | -22.5 |
| Wholesale trade | SME | 3.4 | -9.0 | -11.1 | -6.9 | -6.3 | -28.1 | -56.2 | -28.1 | -59.6 | -21.2 |
| | LSE | 2.3 | -8.8 | -11.1 | -6.9 | -4.6 | -28.5 | -47.0 | -18.5 | -49.3 | -17.8 |
| Services | SME | 11.3 | 3.3 | 5.3 | 2.0 | 1.4 | -24.3 | -53.3 | -29.0 | -64.6 | -28.9 |
| | LSE | 9.7 | -0.5 | 0.7 | 2.0 | -3.1 | -29.3 | -47.0 | -17.7 | -56.7 | -27.2 |
| Germany | SME | 9.2 | 0.4 | 0.8 | -0.1 | 0.9 | -19.4 | -45.4 | -26.0 | -54.6 | -21.7 |
| | LSE | 0.1 | -10.4 | -8.4 | -6.5 | -9.3 | -31.3 | -54.5 | -23.2 | -54.6 | -23.3 |
| Current situation | SME | 23.5 | 10.4 | 9.5 | 9.9 | 10.0 | -0.9 | -31.5 | -30.6 | -55.0 | -17.4 |
| | LSE | 9.7 | -7.0 | -4.4 | -2.9 | -5.8 | -18.7 | -49.1 | -30.4 | -58.8 | -19.8 |
| Expectations | SME | -3.8 | -8.9 | -7.3 | -9.4 | -7.6 | -35.6 | -57.6 | -22.0 | -53.8 | -25.1 |
| | LSE | -8.7 | -13.8 | -12.2 | -10.1 | -12.8 | -42.3 | -59.4 | -17.1 | -50.7 | -26.1 |
| Employment expectations | SME | 5.2 | 3.2 | 1.5 | 2.1 | 1.3 | -8.1 | -24.6 | -16.5 | -29.8 | -12.7 |
| | LSE | 5.4 | -2.1 | -4.7 | -5.0 | -9.1 | -15.0 | -27.5 | -12.5 | -32.9 | -13.3 |
| Sales price expectations | SME | 6.8 | 3.0 | 4.9 | 8.3 | 4.6 | -4.8 | -14.1 | -9.3 | -20.9 | -10.2 |
| | LSE | 3.6 | 1.8 | 2.7 | 3.2 | 1.0 | -5.9 | -16.2 | -10.3 | -19.8 | -9.6 |
| Export expectations of manufacturing | SME | -6.0 | -11.0 | -10.5 | -9.6 | -8.8 | -25.7 | -57.9 | -32.2 | -51.9 | -20.4 |
| | LSE | -9.9 | -9.8 | -4.7 | -8.1 | -13.8 | -32.7 | -60.7 | -28.0 | -50.8 | -28.2 |

Source: KfW Research, ifo Institute

Explanations and abbreviations:

*Seasonally and mean adjusted (long-term mean since January 2005 = 0)

S(mall and) M(edium-sized) E(nterprises).

L(arge-)Scale E(nterprises).

Change in percentage points m(onth)-o(ver)-m(onth).

Change in percentage points y(ear)-o(ver)-y(ear).

Change in percentage points 3 m(onths period)-o(ver)-3 m(onths period).

Revisions relative to previous publications may occur due to seasonal and mean adjustments as well as rounding. The KfW-ifo SME Barometer was fundamentally revised for the reporting month of April 2018 (new aggregation process, inclusion of services, start of time series now 2005 instead of 1991, consideration of export expectations, discontinuation of regional indicators for western and eastern Germany). Publications prior to and from April 2018 are therefore comparable to a limited extent only.

Construction and interpretation of the KfW-ifo SME Barometer

The KfW-ifo SME Barometer indicator family is based on a scale-of-enterprise evaluation of the ifo economic surveys which are used to calculate, among other things, the well-known ifo Business Climate Index. Each month about 9,000 enterprises from trade and industry, construction, wholesale, retail and services (without the banking and insurance sectors or the state) are polled on their business situation, among them some 7,500 SMEs. Enterprises are generally classed as small to medium-sized if they employ a workforce of not more than 500 and record an annual turnover not exceeding EUR 50 million. For a more accurate analysis, however, these quantitative distinctions have to be drawn more narrowly for retail trade (maximum annual turnover of EUR 12.5 million), the building and the construction industry (up to 200 employees) and services (maximum annual turnover of EUR 25 million). All enterprises that exceed at least one of these thresholds are classed as large-scale enterprises. The KfW-ifo SME Barometer reports the balance of current business assessments (percentage of positive answers less percentage of negative answers), the balance of business expectations for the next six months, ascertained in a similar way, and the inferred mean average value for the business climate. Moreover, the enterprises' employment and domestic sales price expectations and – exclusively for manufacturing – export expectations are also captured as balance figures for the next three months. All time series are seasonally and mean adjusted. The zero line therefore marks the long-term 'cycle-neutral' average since January 2005. Indicators above (or below) zero point to an above average or favourable (below average or negative) business situation.